



DAVID RAINEY, CFA
Co-Portfolio Manager



BRIAN MACAULEY, CFA
Co-Portfolio Manager



IRA ROTHBERG, CFA
Co-Portfolio Manager

- » These three industry veterans have more than 23 years of collective experience working on the Fund
- » In addition the Team brings a total of 40 years of Investment & Capital Markets experience

Want More Information?

Contact our FBR Funds Support Desk at 888.200.4710 or visit us online at www.fbrfunds.com.

Q1: Please describe the investment approach used at FBRVX?

Our goal, first and foremost, is to preserve capital from investment loss and inflation. Then, and only then, do we seek to grow that capital over time. To this end, we focus our efforts on finding companies with excellent business franchises, large growth prospects, and skilled management. When we find these gems – or as we say, “compounding machines” – we are very disciplined about the price we pay.

When all these elements come together, they give us a portfolio of businesses with better than average competitive positions and growth rates, at below average valuations. So our expectation is that such a portfolio will do better than average over time.

Q2: Explain what you mean by “excellent business franchises, large growth prospects, and skilled management”?

Sure. We are long-term investors and believe that these three characteristics best predict a company’s ability to create value over a five-to-ten-year time frame.

- » We look for businesses that have a sustainable competitive edge that enables them to earn outsized profits and keep competitors at bay. Warren Buffett refers to this as a competitive “moat”. Some examples include high customer switching costs, high barriers to new entrants, a low cost position, proprietary know-how, patents, and licenses.
- » We look for businesses that can grow to three or five times their current size over the next decade. We like to say “we hunt for elephants, not rabbits”. The longer the growth runway, the longer we can compound our capital at high rates in a tax efficient manner.
- » We look for management that runs the business for the long-term, makes prudent decisions investing the company’s profits, and acts with inflexible integrity in all dealings.

Q3: How do you find new investment ideas?

There is no computer screen or formula that can identify companies that fit our mold, so we employ an eclectic search process. Some ideas are the result of continuous reading of annual reports and periodicals, some spring from our travel to meet with companies in the field, and others are a product of one investment being tangential to the next.

Because so few businesses fit our mold, we reject far more ideas than we accept. When we do find a promising idea, we dig in with detailed proprietary research. We visit production sites, talk with customers and competitors, and meet with field and senior management, all with a goal of understanding the durability of the company’s moat, the size/visibility of the growth runway, and the quality of management.

In most cases, when we find a compounding machine, it is not available at an attractive price. So we monitor the business and wait – sometimes for years – for the market to present an attractive entry point.

Q4: The Fund has fared better than the market in big downturns. How do you manage risk to provide downside protection?

Charlie Ellis, in his 1985 classic investment book, *Winning the Loser’s Game*, famously observed that investing was like amateur tennis, where the victor prevails because he makes fewer unforced errors than his rival does. Players are too eager to serve aces and instead

(continued on the back page)

Q4: (Continued)

double fault, or aim for the corner and miss, when all they have to do to win is consistently hit the ball back over the net.

In investing, the power of compound interest is the investor's best friend. With enough time the power of compounding can carry the investor to an easy "win". So our first consideration is always to try to avoid mistakes that could interrupt the power of compounding...to avoid unforced errors. This means that we are ever watchful for businesses with growing competitive threats, excess financial leverage, unsustainable levels of demand, fad or obsolescence risk, etc. We believe that this loss-avoidance filter is a key contributor to the Fund's overall success, and especially in down markets when such weaknesses often get exposed.

Q5: Please describe the opportunity that you see in one of your largest holdings: American Tower?

American Tower (symbol: AMT) is the largest owner/operator of cellular transmission towers with core operations in the U.S. and a growing presence in Mexico, Brazil, and India.

This is a wonderful business franchise because it is cheaper for cell carriers (AT&T, Verizon, Sprint-Nextel, T-Mobile, etc.) to add capacity by hanging a new transmitter on an existing cell tower rather than build a completely new tower. And yet it costs virtually nothing for the existing tower to add that new tenant so incremental profits on revenue and investment are very high. Zoning rules make it difficult to build new towers so incumbent operators have a moat and enjoy excellent economics.

In the U.S., the proliferation of data and internet enabled smart phones (Blackberry, iPhone, etc.), combined with the build out of new high speed 3G and 4G data networks, has created increasing demand for network capacity and AMT's towers. So the company has growing revenue, earnings, and cash flow to reinvest back into the business.

Outside of the U.S., AMT has operated in both Mexico and Brazil for over five years and has just closed on a substantial acquisition in India, the world's second largest wireless communications market. Management executed this deal brilliantly, waiting patiently for years to buy these Indian assets at a discount price during the recession. India, Brazil, and Mexico all have a rapidly growing middle class and unreliable landline infrastructure giving the company a long runway of growth and high return investment opportunity.

We track and value AMT on a free cash flow per share basis. GAAP earnings substantially understate the company's return on investment and growth in intrinsic value. The company has undertaken a stock buyback program over the last two years that coupled with their growing revenues will be an important part of the company's value creation. Despite all these favorable characteristics, the shares trade at a modest multiple of free cash flow and at a big discount to our estimate of intrinsic value.

TOP 10 HOLDINGS as of 9/30/09

	% Assets
American Tower Corp.	12.7%
Markel Corp.	9.6
Penn National Gaming, Inc.	9.1
99 Cents Only Stores	8.7
CarMax, Inc.	7.4
Bally Technologies, Inc.	7.0
O'Reilly Automotive, Inc.	6.7
Lamar Advertising Co.	5.7
Pool Corp.	4.9
AmeriCredit Corp.	3.8
Total	75.6%

Important Disclosures

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This and other important information can be found in the Fund's prospectus. To obtain a free prospectus, please call 888.200.4710 or visit www.fbrfunds.com. Please read the prospectus carefully before investing. The non-diversified nature of the Fund may subject investors to greater volatility than other diversified funds. Investing in mid- and small-cap companies can involve risks such as less publicly available information, higher volatility and less liquidity than in the case of larger companies.

Effective August 22, 2009, the portfolio management team of David Rainey, Brian Macauley and Ira Rothberg assumed responsibility for managing the FBR Focus Fund. Prior to that date, they were the research analysts for the FBR Focus Fund and were involved in the day to day research and management of the Fund's portfolio investments.

The FBR Funds are distributed by FBR Investment Services, Inc. Member FINRA/SIPC